



Distribution of judicial expenses and costs in trademark infringement cases in Russia. Beware of overkills in claiming infringement compensations

📅 03/12/2021 📖 INTELLECTUAL PROPERTY, RUSSIA

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On 28 October 2021 the Russian Constitutional Court reviewed an issue of distribution of judicial costs in trademark infringement cases and compliance of the provisions of the Arbitrazh Procedure Code on the distribution of judicial costs with the Constitution of the Russian Federation. This is a most recent development of the process of harmonization of court practice and the balancing of sanctions for infringement of IP rights also with respect to judicial costs. Here are the main highlights on the subject up till the Constitutional Court decision.

1. Russian law provides trademark owners with a specific option of obtaining compensation for the infringement of right. In particular, article 1515 of the Civil Code specifies that compensation in

a range between 10 000 and 5 mln. Rubles (Euro 122 – 61,000) can be claimed for each infringement of the trademark.

The trademark owner does not need to prove damages and their amount, and can limit itself to providing evidence of the infringement and the ownership of right. It will not be surprising that this remedy is used by rightholders in Russia much more often than claiming actual damages. There is, however, an intrinsic element of uncertainty, since the law provides that the eventual amount of compensation is awarded by the court seized and is assessed based on the nature of the infringement.

2. The case-law on trademark infringement before 2015 reflected an attitude of the Russian courts strongly in



support of rightholders on awarding compensations for infringement of IP rights.

The distribution of judicial expenses and costs is linked to the court decision on the case and is as a rule settled thereby. More particularly, article 110 of the Russian Arbitrazh Procedure Code provides that judicial costs shall be recovered by the winning party, and in case of partial rejection of the claim, the same should be split between the parties ratably to the extent of the grant or rejection of their respective claims. Part 2 of the same article furthermore allows the recovery of reasonable amount of expenses for attorneys' costs.

Accordingly, winning rightholders are entitled to obtain from the losing party the reimbursement of their judicial costs.

3. Against that background, the Russian Supreme Court issued a specific guideline providing explanations "On certain issues of recovery of costs connected with a court case review" on 21 January 2016, which was chiefly aimed at harmonizing court practice. In particular, the Supreme Court clarified that judicial disbursements may include expenses for pre-judicial claim, when this phase is mandatory and a pre-condition for the enforcement of the litigious right. This is the case for trademark infringement claims according to article 1252 of the Civil Code.

The Supreme Court furthermore held that the party claiming reimbursement of judicial costs must prove that they were actually incurred in connection with the specific proceedings that are at stake.

Besides, the Supreme Court specified that the judicial reduction of the claimed amount of compensation may be characterized as overclaiming, hence, an abuse of procedural rights, and may lead to the denial of recovery of judicial costs by the claimant altogether, or even to charging to the claimant the judicial costs of the defendant.

4. In 2016 the Russian Constitutional Court reviewed for purposes of compliance with the Constitution part 1 of article 1301, part 1 of article 1311 and part 1 of article 1515 of the Civil Code

that provide for specified ranges of compensation for infringement of IP rights (Resolution of the Constitutional Court of the Russian Federation no.28-P dated 13 December 2016, further – Resolution 28-P) and held that the court seized may reduce a compensation below the lower statutory limit. The Constitutional Court explained that compensation is a remedy for infringement of intellectual property right and is provided by law due to the difficulty to control the unlawful use of intellectual property by third parties and to calculate the damages or losses that follow.

Resolution 28-P furthermore explained that compensation is a tool under private law and, whereas in some cases the claimant/rightholder can be economically stronger than the defendant, judicial proceedings should always be inspired by the principle of equality of the parties in dispute. The Constitutional Court moreover explained that the award of compensation as laid down by law may in certain cases result in a disproportion between the sanction and the conduct sanctioned, in contrast with the principle of equality and justice protected by the Russian Constitution (articles 17, 19, 55).

As a specific example of such potential disproportion, the Constitutional Court pointed to the case where statutory compensation, even decreased in accordance with part 3 of article 1252 of the Civil Code (whereby compensation for the infringement of several IP rights owned by a single rightholder cannot be lower than 50% of the sum of minimum compensations for all infringements) yet exponentially exceeds the loss incurred by the rightholder and such loss could be reasonably quantified.

In its Resolution 28-P the Constitutional Court in the end held that Russian law shall be amended in order to allow the reduction of infringement compensation by the court seized even below the minimum threshold. Until the consequential amendments are adopted by the Legislator, Russian courts must apply the ruling of the Constitutional Court in their individual decisions.

The case-law trend in the direction of limiting statutory compensations to reasonable amounts was also confirmed by the Constitutional Court in other cases (Rulings no.8-P dated 13 February 2018 and no.40-P dated 2020), where it was held that the court seized may in general reduce compensation even below the statutory range, if it significantly exceeds the damages on the assessment of all relevant circumstances, including but not limited to, the nature and extent of the infringement and the subjective financial condition of the infringer. This line of thinking, in particular to the extent it has become related to the subjective financial condition of the infringer, at the same time affected the recovery of judicial costs and expenses incurred by rightholders. For example, if the amount of compensation was significantly decreased by the court seized, the defendant might even claim recovery of its own costs and expenses, which may in extreme cases be even higher than the awarded compensation. Needless to say, a situation where a trademark owner ends up paying the costs of the infringer seems paradoxical.

Case no. A40-14914/2018 is an example of that paradox. In that case, the infringer was awarded judicial costs in an amount exceeding the compensation awarded to the rightholder. The trademark owner, the Institute of Human Stem Cells, had filed a trademark infringement action in 2018 claiming the maximum statutory compensation allowed of 5 mln. Rubles. The Moscow Arbitrazh Court awarded the rightholder only 2 % (100,000 Rubles) as compensation, but at the same time held that the trademark owner should reimburse 98% of the costs of the defendant, which amounted to 392,000 Rubles.

The trademark holder appealed the decision at the appeal and the cassation instances. The appeal court and the first instance cassation court upheld the first instance decision, but the Supreme Court at second cassation instance reversed the judgements of the lower courts remanded the case for retrial in 2020. At that stage of the saga, the case was considered one of particular importance and was included in the Official Digest of

the Supreme Court case-law no. 2 in 2020. The first instance court duly took into account the holdings of the Supreme Court and in its retrial of the case awarded only a partial recovery of the defendant's judicial costs, yet, in an amount still exceeding that of the awarded compensation. Only upon the second retrial by the appellate instance, which was not further challenged by the trademark holder, the court held that the lower instances had failed to strike the correct balance between protection of the infringed right and recovery of the defendant's judicial costs, and reduced the total sum due for recovery in amount equal to half of awarded compensation. It certainly took an inordinate time and effort for the trademark owner to achieve an acceptable extent of protection of its right and ultimately obtain a balanced decision.

5. The turn of the case-law on the treatment of infringement compensation and recovery of judicial costs became a point of concern for rightholders and for practical purposes resulted in a general lowering of compensation claims and very detailed calculations, lest the risk would be run that the court seized treats the claim as evidence of excessive compensation and an abuse of right by the claimant.

However, the fact remains that the court seized is still the ultimate judge of infringement compensation amount enjoying an extremely broad discretion, so that even if the rightholder claims the minimum amount of the statutory range, the court still may reduce the awarded amount and ratably charge part of the judicial costs of the defendant to the winner.

6. It is against the scenario that we have depicted, that the most recent Resolution of the Constitutional Court no. 46-P dated 28 October 2021 (Resolution 46-P) could bring more clarity and certainty by striking a more rational balance between protection of IP rights, the public function of deterrence from infringing conducts and the constitutional principles of justice and adequacy of the sanction.



In the merit case, the trademark owner, cartoon studio Melnitsa had filed an action against an individual entrepreneur claiming infringement compensation within the minimum statutory range provided by the Russian law. The Tambov Arbitrazh Court took into account the low cost of the goods, the fact that this was the first infringement committed by the infringer and furthermore the fact that the latter had a disabled child, and awarded one-fourth of the compensation claimed (which was already the minimum). The court moreover awarded the refund of judicial costs to the defendant ratably to the extent of reduction of the compensation. The appeal and cassation instances upheld the decision, so that the trademark owner turned to the Constitutional Court with a claim to determine if part 1 of article 110 of the Russian Arbitrazh Procedure Code, which allows refund of judicial costs pro rata with granted/rejected claims, complied under those circumstances with the Russian Constitution.

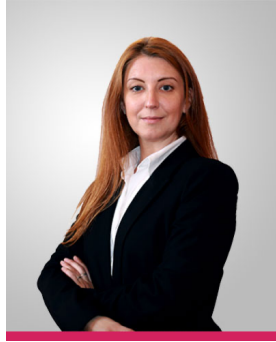
The Constitutional Court held that the relevant provisions of ordinary law were compliant with the Constitution, but the merit decision on the refund of defendant's judicial costs by studio Melnitsa should be reconsidered based on the principles of Resolution 46-P.

The Court cited its own pre-existing jurisprudence, and explained that the

distribution of judicial costs should be justified not only by the outcome of the case per se, and that involuntary costs incurred by the party whose rights had been violated should also be reflected by the cost decision.

Further, the Constitutional Court explained that the reduction of compensation claimed down to minimum range could not be considered a partial victory award and rather presupposed that the infringement of IP rights was proved, and the reduction was rather the consequences of specific circumstances of the case, not of an excessive or unlawful claim (i.e. an abuse of right). The final conclusion of the Court was that part 1 of article 110 of the Arbitrazh Procedure Code does not allow charging the judicial costs of the infringer to the rightholder, when the court seized made a finding of infringement but reduced the compensation claimed to the minimum of the statutory range.


Based on the above explanations and decisions, one could say that the recent case of the Constitutional Court and the Supreme Court provide a limited guarantee that intellectual property rights can be protected by the compensation tool, although the rightholder shall need to always accurately calculate the amount of its compensation claim in order to stay clear of reduction decisions for practical purposes nullifying the effectiveness of the judicial remedy.



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